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SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

THE ECONOMIC STATUS OF THE ELDERLY

PREPARED BY THE CONGRESSIONAL BUDGET OFFICE AT THE
REQUEST OF THE SUBCOMMITTEE ON SOCIAL SECURITY

MAY 23, 1989

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This study of the economic status of the elderly was requested by the Chairman of the Subcommittee on Social Security of the Committee on Ways and Means. The analysis was prepared by Roberton Williams of the Human Resources and Community Development Division, under the supervision of Nancy M. Gordon and Ralph E. Smith. Eric Guille, Susan Hilton, and Jodi Korb provided programming assistance. Bryan Sayer prepared the graphics, and Ronald Moore prepared the manuscript for publication. For additional information, call Roberton Williams at (202) 226-2663.

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SUMMARY

Broad measures of economic status indicate that the elderly as a group are doing relatively well. Since 1970, their median income has grown faster than that of the nonelderly. Their poverty rate has fallen to an all-time low and is now less than that of the rest of the population. Some groups of the elderly, however, continue to have low incomes, high rates of poverty, and few assets.

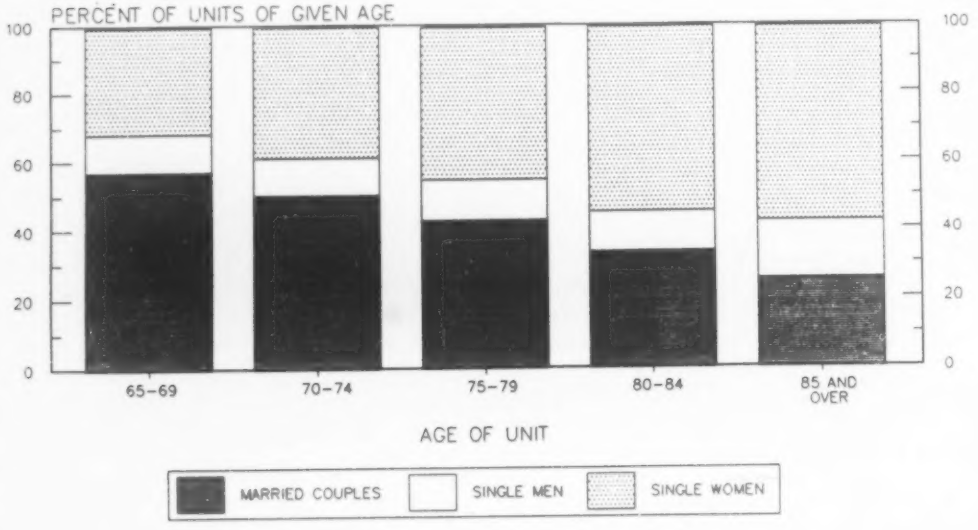
This Congressional Budget Office (CBO) analysis examines the incomes and assets of two elderly groups: unmarried individuals who live alone and married couples who do not live with any other people and in which at least one spouse is age 65 or over. In 1988, these groups, which are jointly referred to as "elderly units," contained over two-thirds of the elderly population.

THE RELATIONSHIPS AMONG INCOME, AGE, AND MARITAL STATUS

The "old" old have lower incomes than the "young" old, but their lower incomes result more from the greater likelihood of their being widowed than from their being older.

Summary Figure 1 shows the dramatic shift in marital status that occurs as the elderly age. Among units ages 65 through 69, almost 60 percent are married couples, and about 30 percent are single women. In contrast, by age 85 or older, this 60/30 split is roughly reversed: 25 percent are married couples and almost 60 percent are unmarried women--mostly widows. (Because of data limitations, the elderly who live with people other than their spouses and those who live in nursing homes and other institutions are omitted from this study.)

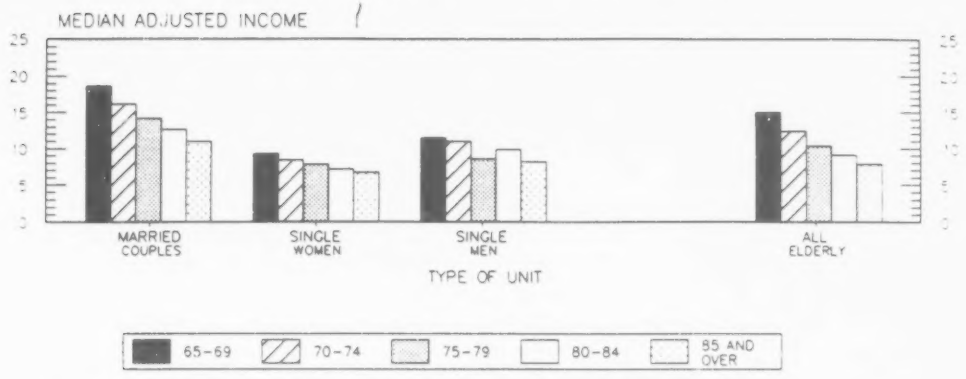
SUMMARY FIGURE 1. DISTRIBUTION OF ELDERLY UNITS BY TYPE OF UNIT AND AGE, 1988



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

The right-hand portion of Summary Figure 2 shows that in 1987 the median income of elderly units age 85 or older--adjusted for family size using the equivalence scale embodied in the official poverty thresholds--was just under $8,000, or 48 percent below the $15,000 median income of units ages 65 through 69. The shift in the elderly population from predominantly married couples among the "young" old to primarily single women among the oldest elderly explains much of this drop in income with age. In fact, single women and men have lower incomes than couples at every age. Even the oldest couples--those age 85 or over--had a median adjusted income of $11,000, or about one-fifth higher than the $9,000 median income of the youngest group of elderly single women.

SUMMARY FIGURE 2. MEDIAN INCOME OF ELDERLY UNITS, ADJUSTED FOR FAMILY SIZE, BY AGE AND TYPE OF UNIT, 1987 (In thousands of dollars)



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

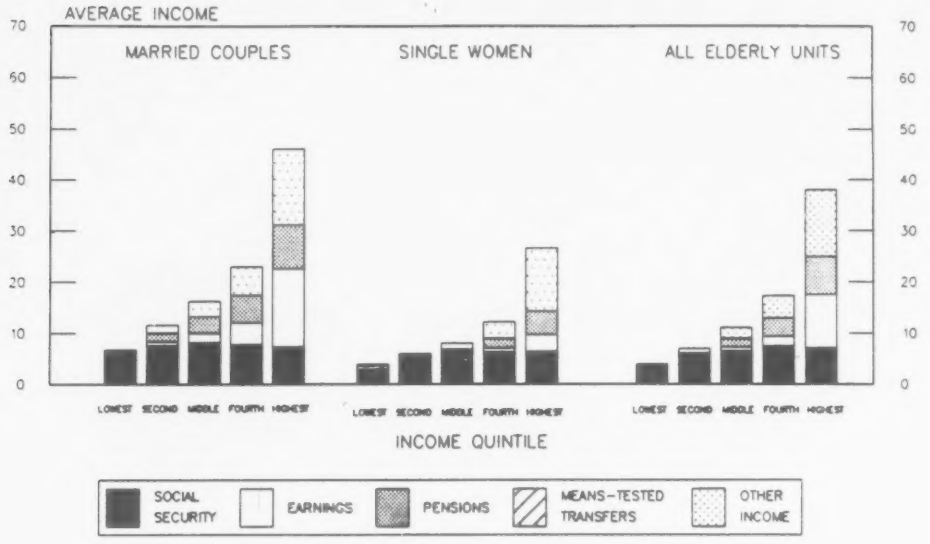
NOTE: Incomes of married couples adjusted for family size by dividing by 1.25.

INCOME INEQUALITY

Income is distributed unequally among the elderly. Low-income elderly people rely heavily on Social Security and, to a lesser extent, Supplemental Security Income (SSI). In contrast, the elderly who are better-off get most of their income from earnings, pensions, and other private sources.

The right-hand portion of Summary Figure 3 shows that, in 1987, units in the top fifth, or quintile, of the distribution had an average income (adjusted for family size) more than eight times that of the poorest fifth--$38,000 compared with $4,500. Single people are disproportionately represented in the lower quintiles, while married couples predominate among the higher-income groups: in 1987, 60 percent of single elderly women were in the bottom two quintiles for all elderly units, while 58 percent of couples were in the top two quintiles.

SUMMARY FIGURE 3. AVERAGE ADJUSTED INCOME OF ALL ELDERLY UNITS, MARRIED COUPLES, AND SINGLE WOMEN, BY SOURCE OF INCOME AND INCOME QUINTILE, 1987 (In thousands of dollars)



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

Virtually all elderly units received Social Security benefits in 1987, but the receipt of income from other sources was much less universal. In fact, differences in income among groups of elderly are primarily the result of variation in the average amounts of earnings and pensions.

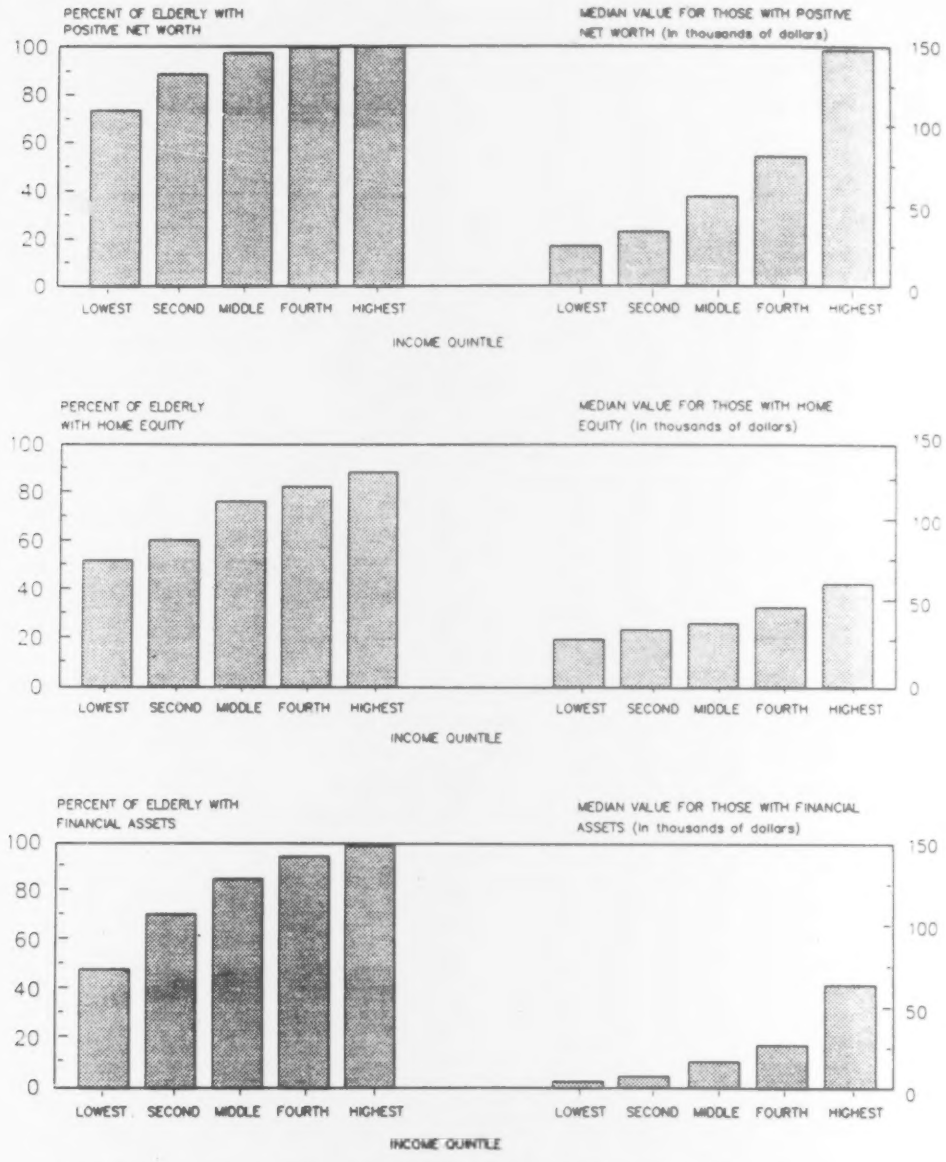
The low-income elderly received 80 percent, or $3,600, of their 1987 income from Social Security and 9 percent from SSI and other means-tested cash transfer programs. In contrast, elderly units in the top income quintile got less than 20 percent, or $7,000, of their total income from Social Security and virtually none from the means-tested programs. Instead, nearly half of the highest-income units had earnings (with an average value for recipients of $22,800) and almost two-thirds had pensions (with an average value for recipients of $11,900).

ASSETS

Unlike the high-income elderly, those with low incomes have few financial assets with which they can supplement their incomes, although a substantial fraction own their own homes.

The top panel of Summary Figure 4 shows that the distribution of assets among the elderly mirrors the distribution of income. Essentially all high-income units had positive net worth in 1985--with a median net value of almost $150,000. In contrast, only three-quarters of those with low incomes had assets, and those with positive net worth had median holdings of only about $25,000. While elderly married couples were only a little more likely than single people to have assets, the median net worth of married asset-holders was over twice as large as for single people with assets (nearly $100,000 compared with less than $50,000). In addition, net worth declines with increasing age.

SUMMARY FIGURE 4. ASSETS OF ELDERLY UNITS BY TYPE OF ASSET AND ADJUSTED INCOME QUINTILE, 1985



SOURCE: Congressional Budget Office tabulations of data from the 1984 and 1985 Survey of Income and Program Participation.

About 70 percent of elderly units owned their homes in 1985, with a median equity of about $50,000, but high-income units were much more likely to have equity in their homes than were their low-income counterparts. Homeownership rates also decline with age, although among homeowners, the median amount of home equity varies little by age group.

The median value of financial assets--bank accounts, stocks, bonds, and similar holdings--is substantially lower, and its distribution is more uneven. Less than half of the elderly in the lowest income quintile had such assets, and the median value for those who did was only about $4,000. In contrast, essentially all high-income units had financial holdings, with a median value of over $60,000.

THE ECONOMIC STATUS OF THE ELDERLY

INTRODUCTION

Since 1970, the incomes of the elderly have grown faster than those of any other group in the United States, rising 50 percent after adjustment for inflation. Moreover, the poverty rate for people age 65 and over is lower than that for the rest of the population. Yet, while the elderly as a group are better-off than ever before, significant numbers of them, particularly older widows, continue to have incomes that are below or only slightly above the poverty level.

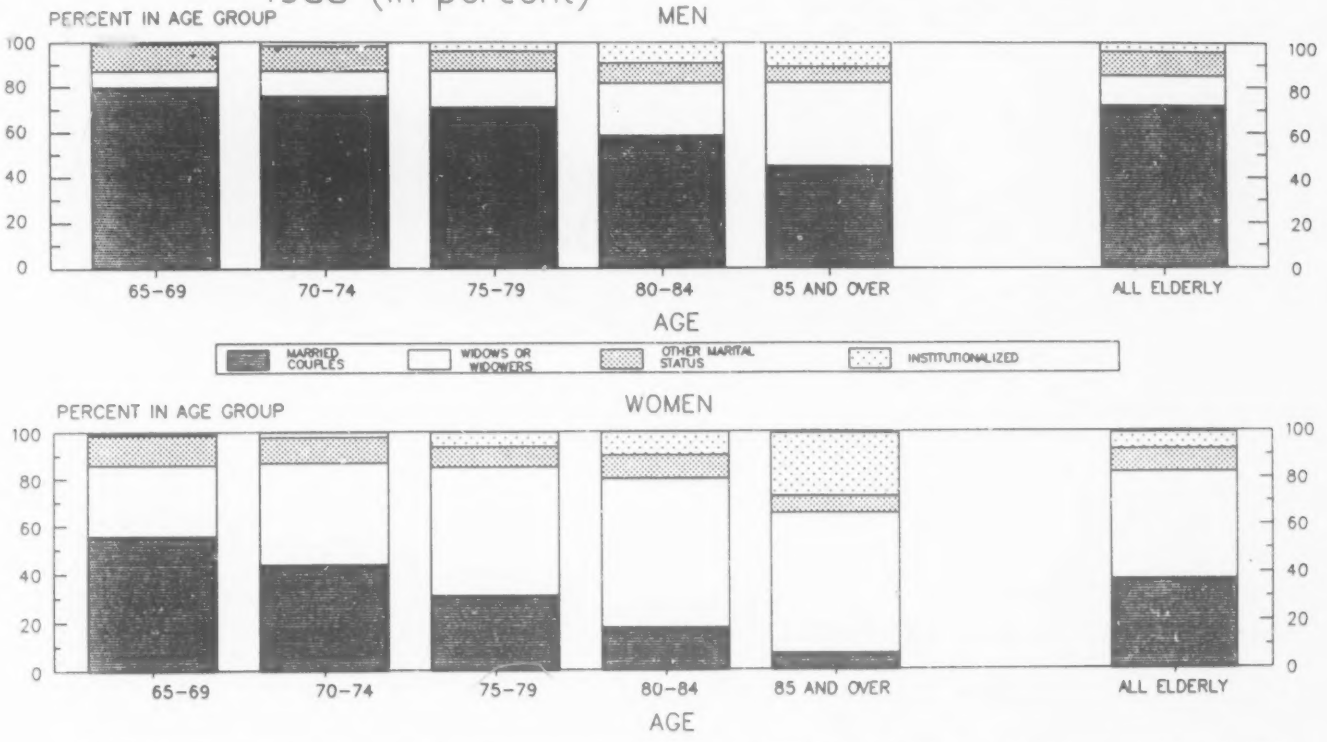
This Congressional Budget Office (CBO) analysis examines the economic status of the elderly, focusing on people who live alone or only with their spouses, groups that make up more than two-thirds of the population age 65 and over. The study deals with three topics. It first examines the composition of the elderly population with respect to age, marital status, and living arrangement. Next, a discussion of income compares the positions of different subgroups to assess their well-being and shows the relative importance of major sources of income. The last section concerns the assets of the elderly. In combination, these three components demonstrate that, while the overall economic status of the elderly is quite healthy, particular groups remain far from being well-off.

DEMOGRAPHIC CHARACTERISTICS OF THE ELDERLY

Two factors largely determine the composition of the elderly population in terms of marital status, age, and sex--the higher mortality of men relative to women and the deteriorating health of older people. The "young" old--those ages 65 through 69 are most likely to be married: 80 percent of men and 56 percent of women in that age group live with their spouses (see Figure 1). As these couples age, one spouse --most often the husband--dies, shifting the bulk of the population into widowhood and increasing the fraction who are female. By their late seventies, more than half of all women are widows, while just one-third are still married. At the same time, declining health increases the likelihood of residing in nursing homes or similar facilities. Among the oldest people--those age 85 or over--about one-tenth of the men and over one-fourth of the women live in institutions. Among those still living in households, more than 80 percent of women and 40 percent of men are widowed. The elderly population thus shifts as it ages from primarily married couples to primarily widows and widowers.

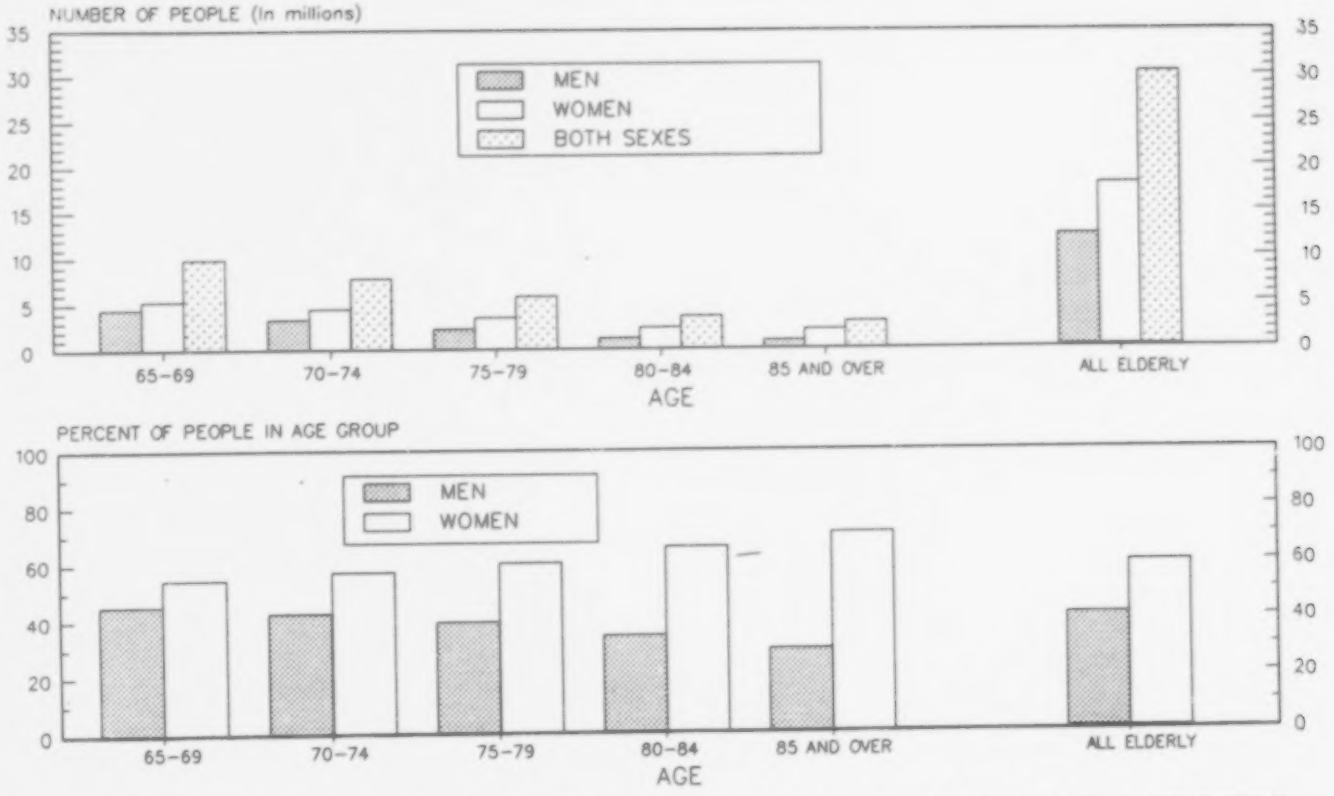
Women outnumber men at all ages beyond 65, with the gap widening among older groups as men tend to die at younger ages (see Figure 2). Among people ages 65 through 69, 55 percent are women, while more than 70 percent of people age 85 and over are women. Overall, there are roughly three elderly women for every two men age 65 or over.

FIGURE 1. DISTRIBUTION OF ELDERLY MEN AND WOMEN BY MARITAL STATUS, INSTITUTIONALIZATION STATUS, AND AGE, 1988 (In percent)



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey and Bureau of the Census population estimates.

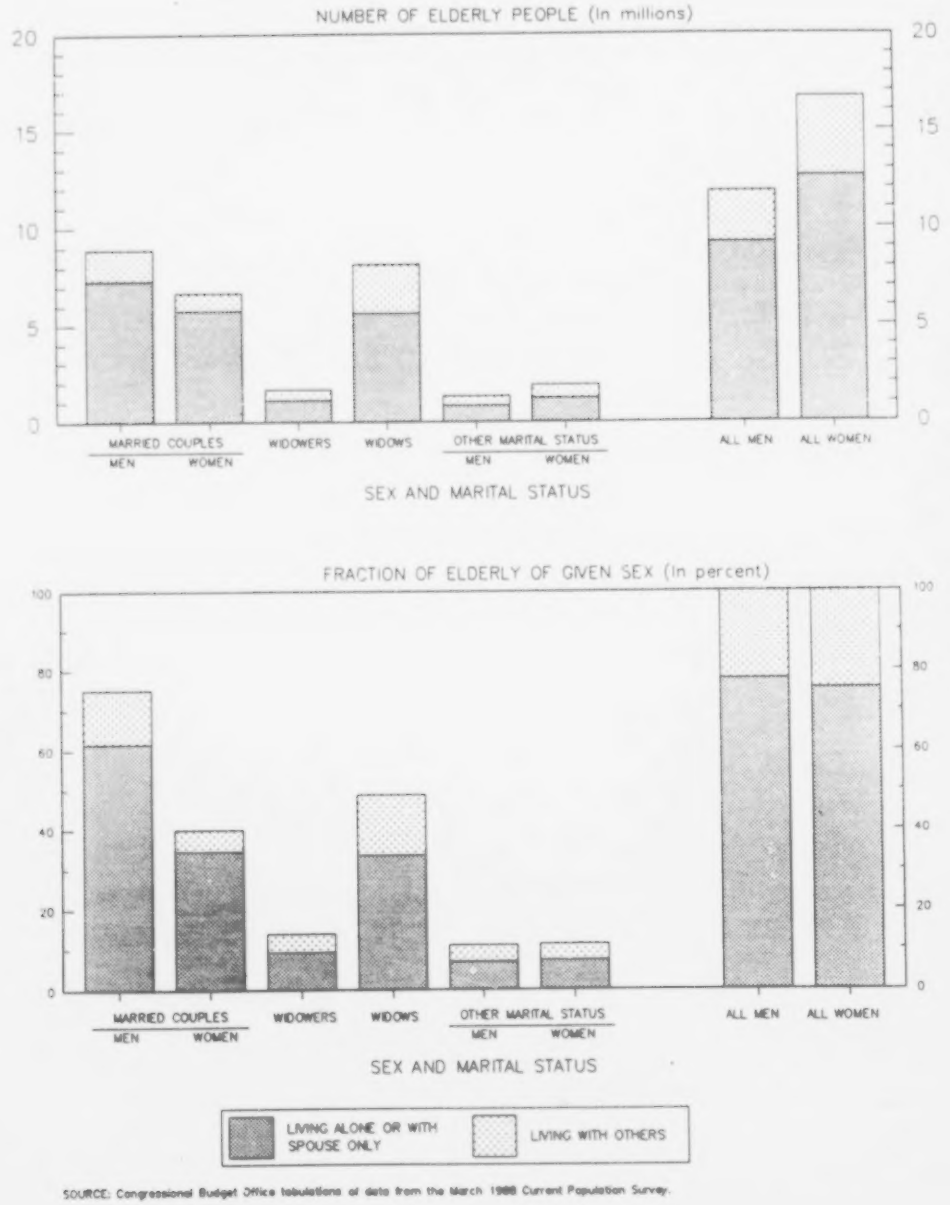
FIGURE 2. ELDERLY POPULATION BY SEX AND AGE, 1988



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey and Bureau of the Census population estimates.

Most of the elderly maintain their own households, with only about one-fourth of them living with people other than their spouses, such as their children or siblings (see Figure 3). The likelihood of the latter living arrangement is greater, however, for the unmarried elderly, about one-third of whom live with other people, compared with about one-sixth of elderly couples who live with people other than their spouses.

FIGURE 3. DISTRIBUTION OF ELDERLY PEOPLE NOT IN INSTITUTIONS, BY LIVING ARRANGEMENT, SEX, AND MARITAL STATUS, 1988



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

The analysis of the incomes and assets of the elderly in the remainder of this paper is limited to the elderly who live alone or only with their spouses. A lack of data necessitates this restriction. For the elderly in institutions, no data describing income or assets exist, because surveys of such financial information are household-based. For the elderly who live with other people besides spouses, the problem is one of interpretation. These people probably share resources with the other members of their households, but no data exist that indicate the extent of that sharing. At one extreme, if no sharing occurs, the income of the elderly person or couple fully measures their financial well-being. On the other hand, if all household members pool their resources, their combined incomes and assets indicate how well-off all members are. Rather than making arbitrary assumptions about how they share their resources, this analysis omits such households.

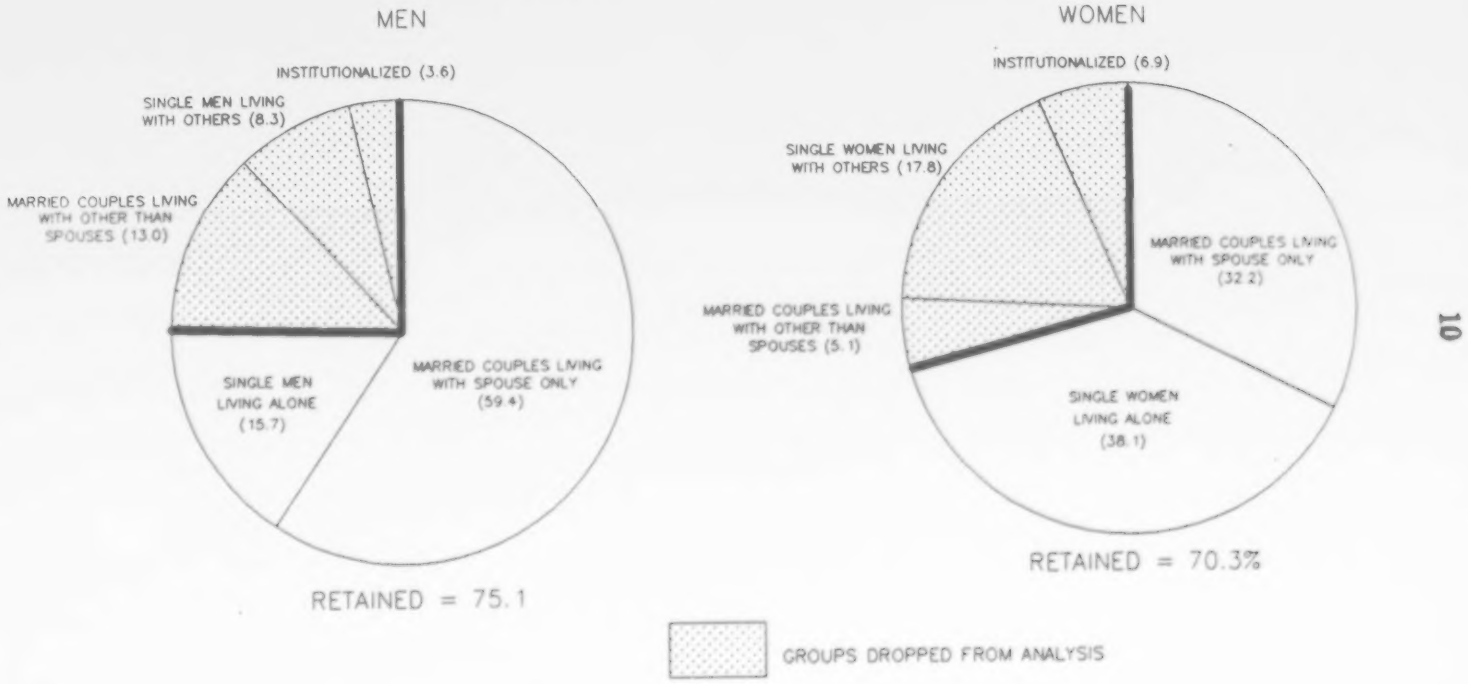
These limitations exclude about one-fourth of all elderly men and about 30 percent of elderly women (see Figure 4). Nearly 80 percent of the remaining men are married, compared with somewhat less than half of the remaining women. Because it is impossible to separate the well-being of spouses, married couples are considered as single units.1/ Of those not married, nearly three-fourths are widowed--almost 60 percent of the men and over 80 percent of the women. Because of the predominance of widows and widowers, and to simplify the remaining analysis, unmarried men and women are considered as single groups. The financial status of this group is largely that of elderly widows, who make up over three-fifths of unmarried people age 65 or over who live alone.

As in the case of all elderly, the composition of those who live alone or only with their spouses shifts from "young" married couples to "old" widows (see Figure 5). Nearly 60 percent of the units ages 65 through 69 are married couples, compared with only 25 percent of units age 85 or over. In contrast, single women make up about one-third of elderly units under age 70 and nearly 60 percent of those age 85 or over. In no age group do single men make up more than one-fifth of elderly units.

---

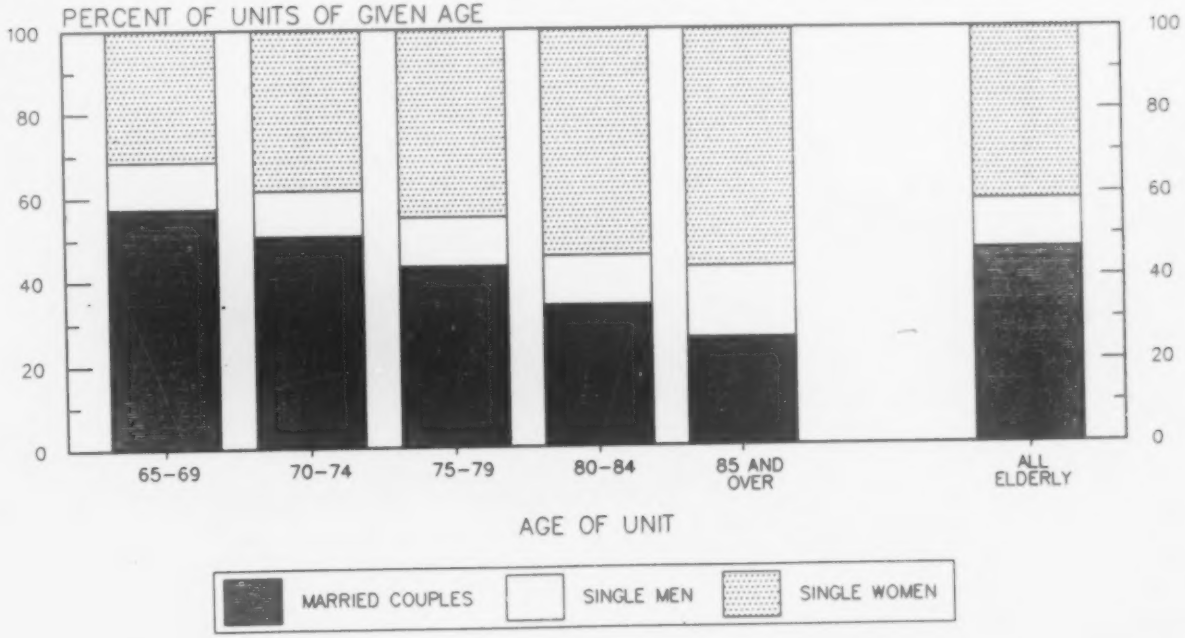
1. Married couples are included as elderly if either spouse is age 65 or over. In about two-thirds of these couples, both spouses are at least age 65. In three-fourths of the cases in which one spouse is under age 65, the other spouse is under age 70. In all cases, the age of the married couple is defined as the age of the older spouse.

FIGURE 4. DISTRIBUTION OF ELDERLY MEN AND WOMEN, BY MARITAL STATUS AND LIVING ARRANGEMENT 1988 (In percent)


MEN
INSTITUTIONALIZED (3.6)
SINGLE MEN LIVING WITH OTHERS (8.3)
MARRIED COUPLES LIVING WITH OTHER THAN SPOUSES (13.0)
SINGLE MEN LIVING ALONE (15.7)
MARRIED COUPLES LIVING WITH SPOUSE ONLY (59.4)
RETAINED = 75.1
WOMEN
INSTITUTIONALIZED (6.9)
SINGLE WOMEN LIVING WITH OTHERS (17.8)
MARRIED COUPLES LIVING WITH OTHER THAN SPOUSES (5.1)
MARRIED COUPLES LIVING WITH SPOUSE ONLY (32.2)
SINGLE WOMEN LIVING ALONE (38.1)
RETAINED = 70.3%
GROUPS DROPPED FROM ANALYSIS

SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey and Bureau of the Census population estimates.

FIGURE 5. DISTRIBUTION OF ELDERLY UNITS BY TYPE OF UNIT AND AGE, 1988



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

INCOMES OF THE ELDERLY

Because most families support themselves out of current income, income provides the best single measure of a family's well-being. The median income of a group indicates how well-off the typical member is, while the poverty rate shows what fraction of the group has very low incomes--below $5,447 for an elderly individual and below $6,872 for an elderly couple in 1987. Finally, from a policy perspective, knowing the sources of income is necessary to examine the likely effects of changing federal policies.

The analysis here considers only before-tax cash income as reported for 1987 on the Current Population Survey (CPS); these are the most recent data currently available.2/ Income received in kind, such as food stamps or health insurance, is omitted because of data limitations; counting such income would show the elderly to be better-off than the reported findings indicate. On the other hand, the exclusion of taxes has the reverse effect. The net impact of the two omissions cannot be assessed.

Median Income

In 1987, the median income of all elderly units examined was about $13,000, but incomes varied substantially by age, marital status, and sex (see the top panel of Figure 6).3/ The "old" elderly had incomes markedly lower than the "young" elderly: among all elderly units, median income in 1987 was twice as great for units ages 65 through 69 as for those age 85 or over--about $17,000 compared with roughly $8,600.

This decline in income with age results in large part from the changing composition of the elderly population from primarily married couples at younger ages to predominantly widows at higher ages. In every age cohort, couples have higher incomes--either unadjusted or adjusted for family size--than single women. As a result, the preponderance of married couples among the younger elderly increases the average income of that group, while the larger numbers of widows among the oldest old make the latter group poorer than they would be if the marital composition of the population did not change with age.

At the same time, however, another age-related factor--mortality--works in the opposite direction. People with higher incomes tend to live longer than their poorer counterparts. Consequently, older cohorts should contain relatively more high-income units, and thus have higher average income than if mortality did not vary with income.

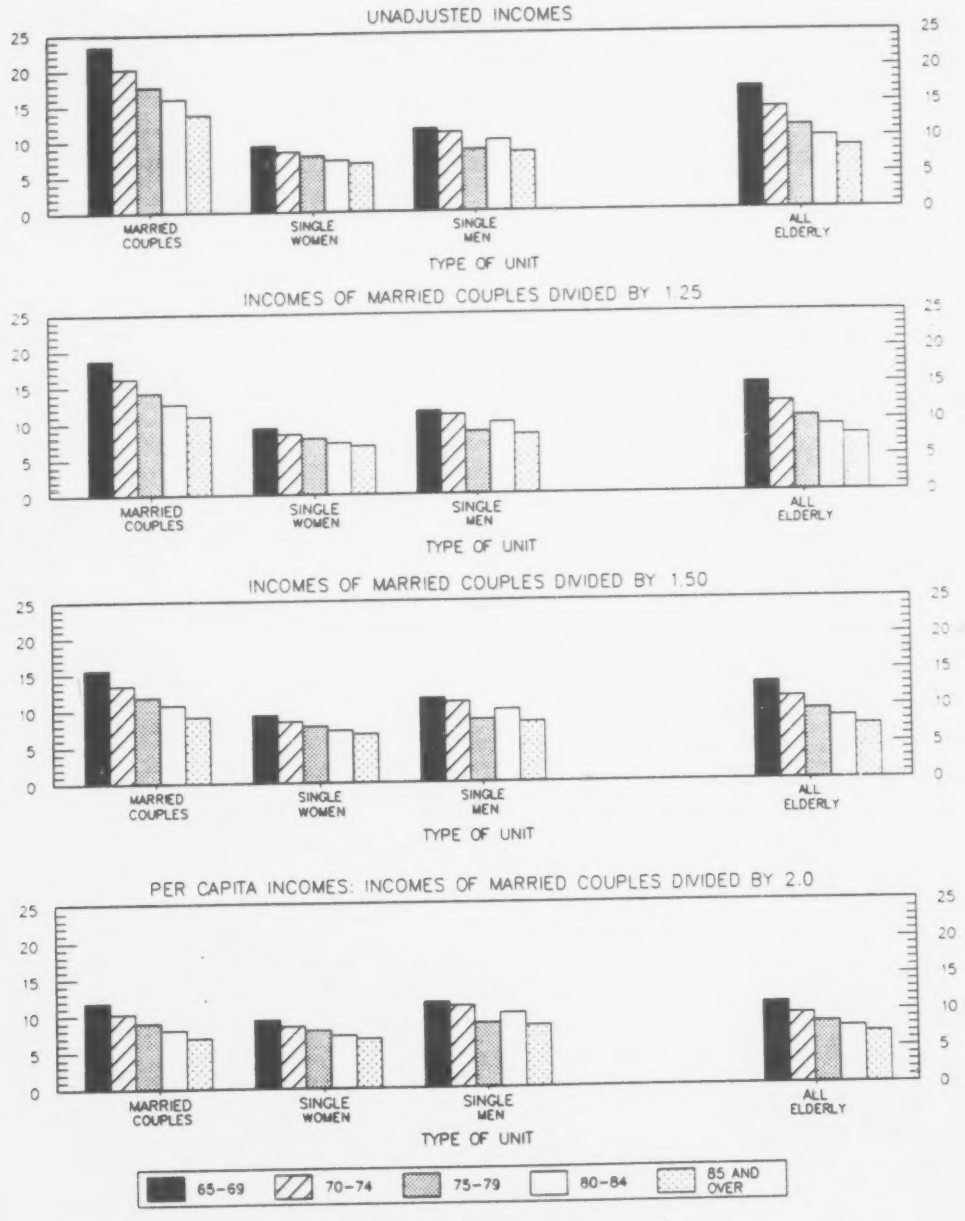
Differences in income of different types of elderly units are much greater than the variation among age groups. In 1987, married couples had significantly higher incomes than their unmarried counterparts: the median income of couples was just over $20,000, more than twice the $9,900 median of single men and two and one-half times the $7,900 median of single women. These comparisons take no account, however, of the different needs of couples and individuals.

---

2. A major problem with the CPS is its significant understatement of incomes of the elderly compared with independent sources. For a discussion of this and other limitations of data from the CPS, see the appendix.

3. Tables containing the data that are the basis for the figures in this paper are available from the Congressional Budget Office.

FIGURE 6. SELECTED MEASURES OF THE MEDIAN INCOME OF ELDERLY UNITS, ADJUSTED FOR FAMILY SIZE, BY AGE AND TYPE OF UNIT, 1987
(In thousands of dollars)



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

Adjusting the incomes of couples to reflect their higher needs relative to single people can improve comparisons among types of elderly units. One extreme would be to measure incomes on a per capita basis--dividing the incomes of married couples in half (see the bottom panel of Figure 6). This approach, however, ignores the economies of scale enjoyed by people living together: two people can live together more cheaply than they can live separately, if only because per capita costs of housing are lower for larger families. Comparing per capita incomes thus overcompensates for differences in family size and makes couples appear to be worse-off than they actually are. Even so, on the basis of per capita incomes, elderly married couples are better-off at all ages than single women and about equally well-off as single men.

An alternative measure would be to adjust incomes based on the needs equivalence scale implicit in the official poverty thresholds. These thresholds assume that an elderly couple requires about 25 percent more income than does an elderly individual to maintain an equivalent standard of living (see the second panel of Figure 6). If the incomes of couples are reduced on the basis of this differential--that is, divided by 1.25--to make them comparable to the incomes of single people, the median income in 1987 for married couples is just over $16,000, while it becomes $11,600 for all elderly units. Even with this downward adjustment, elderly couples remain substantially better-off than their single counterparts: the adjusted median income of couples is twice that of single women and 1.6 times that of single men.

Some analysts claim that the difference in needs between couples and single people implied by the poverty thresholds is too small, and that married couples require incomes more than 25 percent higher than single people to be equally well off. The federal benefit standard in the Supplemental Security Income (SSI) program is 50 percent higher for married couples than for single people, and thus implicitly assumes that couples need half again the income of single people. (A similar equivalence scale is implicit in the benefit schedule for Social Security, which provides a spouse's benefit equal to one-half of the worker's benefit. Adjusting couples' incomes on this basis--that is, by dividing them by 1.5 as shown in the third panel of Figure 6--does not change the basic result that married couples are better-off: their adjusted median income in 1987 was 70 percent higher than that of single women and about 35 percent higher than that of single men.

The remainder of this paper bases comparisons among types of elderly units on incomes that are either unadjusted or adjusted for family size using the poverty equivalence scales.4/ Table 1 shows that using this adjustment makes the calculated differences between incomes of married couples and single people greater than what would be found using alternative adjustments, and smaller than what would be found using unadjusted income. The choice of adjustment does not, however, affect the basic finding that couples are markedly better-off than unmarried women, because the unadjusted incomes of couples are so much higher than those of single women, regardless of age.

---

4. That is, the incomes of married couples are divided by 1.25 to make them comparable to the incomes of unmarried people. The term "adjusted incomes" refers to these measures.

TABLE 1. SELECTED MEASURES OF THE MEDIAN INCOME ADJUSTED FOR FAMILY SIZE OF ELDERLY MARRIED COUPLES DIVIDED BY THE MEDIAN INCOME OF SINGLE PEOPLE, BY SEX AND AGE, 1987

Elderly Couples Relative to Single Elderly	65-69	70-74	75-79	80-84	85 and Over	65 and Over
Unadjusted Income						
Women	2.52	2.42	2.26	2.22	2.04	2.55
Men	2.03	1.84	2.04	1.59	1.65	2.04
Adjusted Income (Incomes of married couples divided by 1.25)						
Women	2.01	1.93	1.81	1.77	1.63	2.04
Men	1.62	1.47	1.63	1.27	1.32	1.63
Alternative Adjusted Income (Incomes of married couples divided by 1.50)						
Women	1.68	1.61	1.51	1.48	1.36	1.70
Men	1.35	1.23	1.36	1.06	1.10	1.36
Per Capita Income (Incomes of married couples divided by 2.00)						
Women	1.26	1.21	1.13	1.11	1.02	1.27
Men	1.01	0.92	1.02	0.80	0.83	1.02

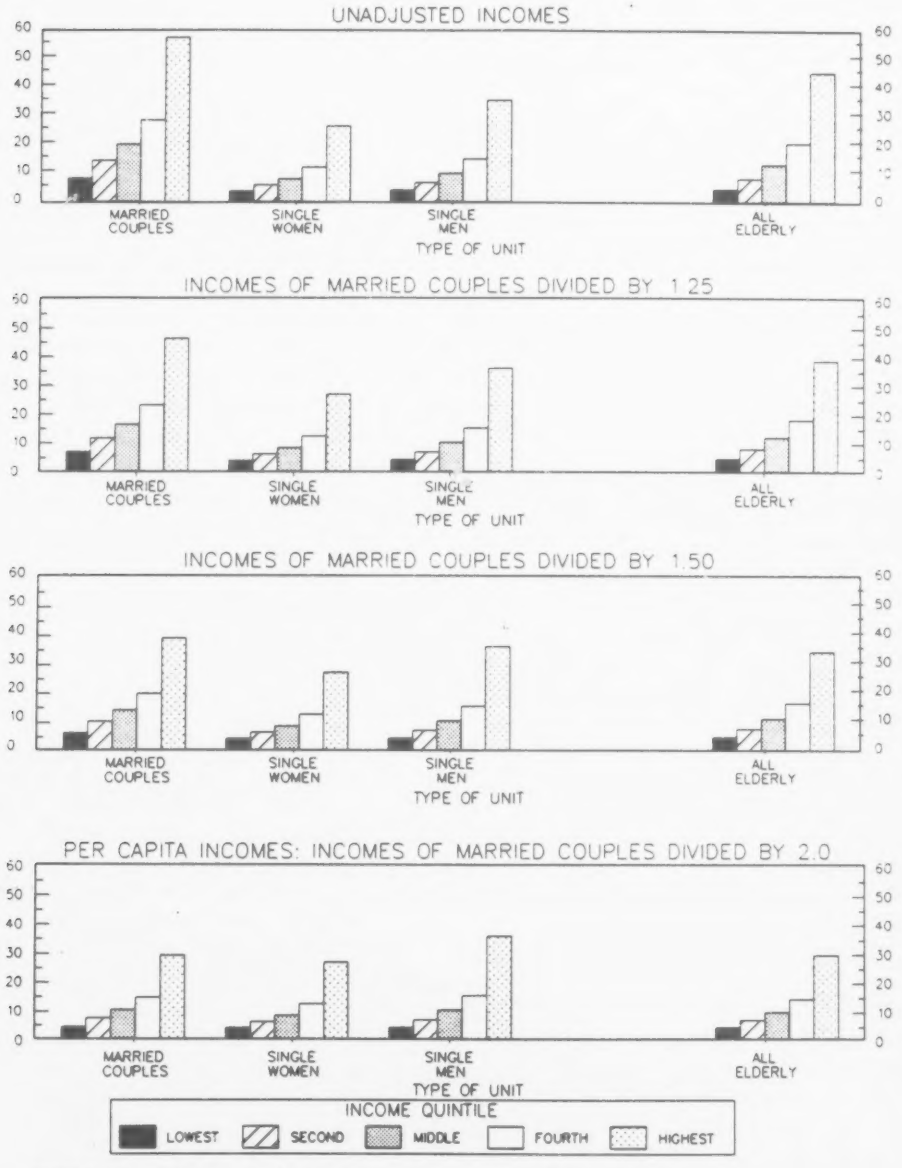
SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

NOTE: Ratios are calculated by dividing the median income of married couples in a given age group by the median income of either single women or single men in the same age group. Thus, the upper left-hand entry in the table indicates that couples ages 65 through 69 had a median income 2.52 times that of single women ages 65 through 69.

The Distribution of Income

Incomes of elderly units are distributed unequally. Among all such units, the average adjusted income of the poorest fifth--or quintile--in 1987 was about $4,500, 12 percent of the average adjusted income of the wealthiest fifth (see Figure 7). Even controlling for type of unit, the differences in adjusted income are large: the average adjusted incomes of the bottom quintiles in 1987 were 11 percent (for single men) and 14 percent (for couples and single women) of those in the top quintiles. If only units in the same age categories are compared, the gap between adjusted incomes of the top and bottom quintiles remains about the same, with ratios ranging from 10 percent to 18 percent. In contrast, for all families in 1987--both elderly and nonelderly--the average adjusted income of the poorest fifth was 9 percent of that of the wealthiest fifth.

FIGURE 7. SELECTED MEASURES OF THE AVERAGE INCOMES OF ELDERLY UNITS, ADJUSTED FOR FAMILY SIZE, BY INCOME QUINTILE AND TYPE OF UNIT, 1987 (In thousands of dollars)



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

This wide variation in incomes among the elderly points up the dangers of using median or average incomes to indicate the well-being of diverse groups. While the elderly as a whole had higher incomes in 1987 than in any previous year, and had a lower poverty rate than the nonelderly, many subgroups had extremely low incomes. For example, the median income of all elderly units living alone or only with spouses--adjusted for family size--was about $11,600, more than twice the

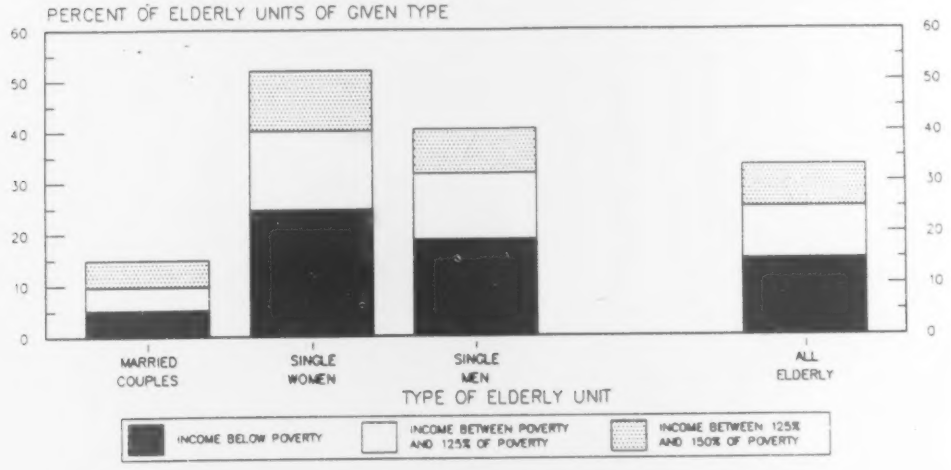
poverty level. At the same time, the poorest fifth of single elderly women had an average adjusted income of only $3,750, or about two-thirds of the poverty threshold.

Poverty Among the Elderly

In 1987, the poverty rate of all elderly, including those living with people other than their spouses, was at an all-time low of 12.2 percent, significantly less than the 13.7 percent poverty rate for the nonelderly. At the same time, many elderly people had incomes only slightly above poverty: about 8 percent of the elderly were near-poor--that is, they had incomes between poverty and 125 percent of poverty--compared with just 4 percent of the nonelderly. Furthermore, as with the nonelderly, large disparities occurred in the poverty rates of different groups among the elderly.

In the same year, 15 percent of the elderly units examined in this analysis were in poverty (see Figure 8).5/ As would be expected from the preceding discussion of incomes, married couples were much less likely to be poor than single people: just 5 percent of couples were in poverty compared with 19 percent of single men and 25 percent of single women.6/ When units with incomes not far above poverty are also considered, the disparities among types of units are even greater. For example, about 9 percent of couples had incomes below 125 percent of poverty, while 32 percent of single men and over 40 percent of single women had incomes below that level.

FIGURE 8. DISTRIBUTION OF ELDERLY UNITS BY INCOME RELATIVE TO POVERTY, AND TYPE OF UNIT, 1987 (In percent)



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

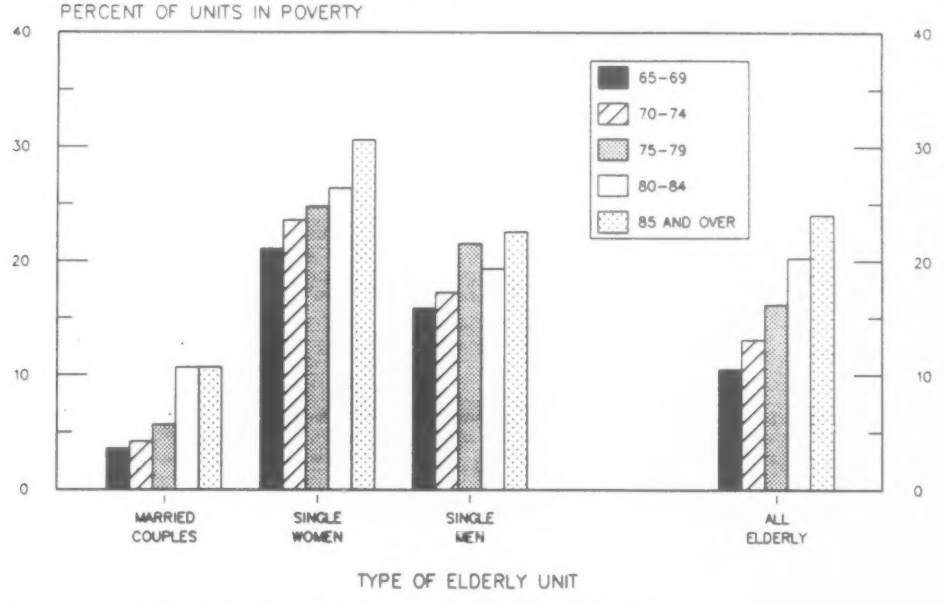
5. The poverty rate for elderly units consisting of single people living alone or married couples living with no others is higher than that for all elderly people for two reasons. First, married couples are counted as one unit in determining the poverty rate of units, but are counted as two people in measuring the poverty rate of all elderly. Since couples are less likely to be poor than single people, the poverty rate for all elderly tends to be lower than that for elderly units. Second, the poverty rate of families with elderly members who live with people other than their spouses is lower than that for the elderly who live alone or only with their spouses: in 1987, the poverty rates of the two groups were 11.2 percent and 12.6 percent, respectively.

6. Recall that poverty thresholds assume that couples require 25 percent more income to be nonpoor than do single people. A larger differential would increase the poverty rate of couples relative to that of unmarried people.

These higher rates of poverty and near-poverty for the single elderly derive in part from the Social Security benefit formula, which provides couples in which one spouse worked with payments 50 percent higher than those of a single person with an identical earnings record.7/ When one spouse dies, the survivor receives the same benefits as the single person. Because the difference in benefits is larger than the 25 percent gap between poverty thresholds for couples and single people, being widowed can make a person poor. For example, a retired couple with annual Social Security payments in 1987 of $7,200 based on the earnings of one spouse would have been above the poverty threshold of $6,872 for an elderly couple, even if they had no other income. The death of one spouse would have led to poverty for the survivor, however, because Social Security benefits would have dropped to $4,800, which--with no other income--would have been below the official poverty threshold of $5,447 for an elderly individual.

Poverty rates of elderly units rise with age--from 10 percent for those under age 70 to 24 percent for those age 85 or over--but age has less effect than type of unit (see Figure 9). Among elderly married couples, poverty rates vary from 4 percent for those under age 70 to 11 percent for those age 85 or over. In contrast, the poverty rates of single women range from 21 percent for the youngest age group to 31 percent for the oldest. The sharp rise in poverty with age appears to come more from the shift in the elderly population from younger married couples to older widows than from differences between age cohorts. The poverty rate of married couples age 85 or over is only half that of single women ages 65 through 69.

FIGURE 9. DISTRIBUTION OF ELDERLY UNITS WITH INCOMES BELOW POVERTY, BY AGE AND TYPE OF UNIT, 1987 (In percent)



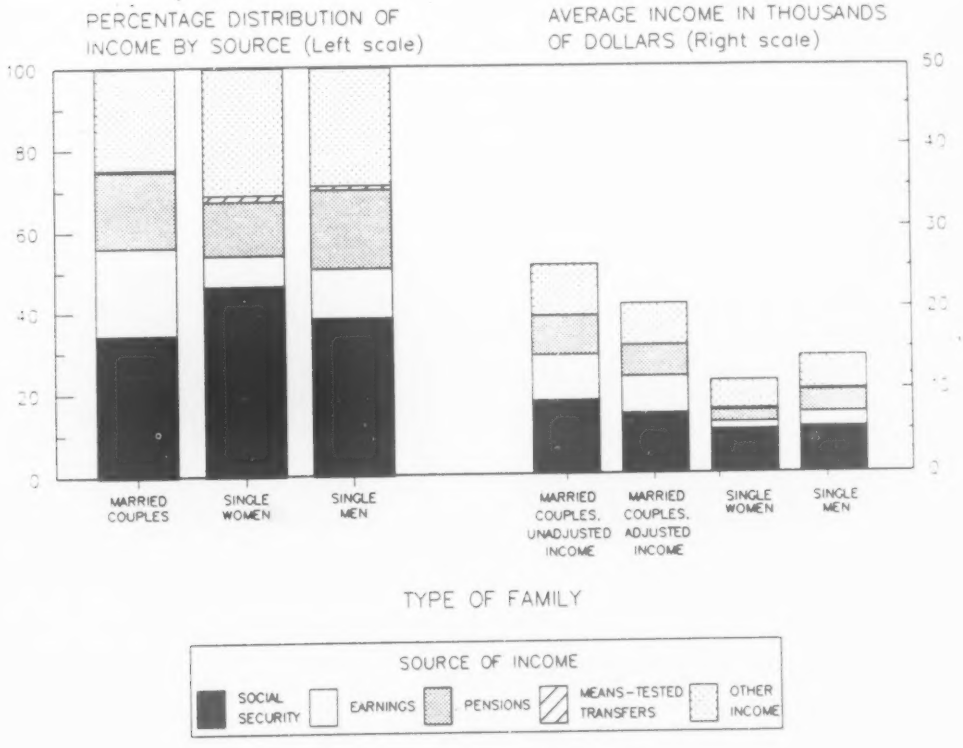
SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

7. Couples get even larger benefits if both spouses are entitled to Social Security payments on the basis of their own earnings records and if these earnings are greater than what they would receive as dependents. In such cases, a surviving spouse gets the larger of the two individual benefits.

Sources of Income of the Elderly

Elderly married couples have higher incomes than elderly single people, primarily because they have greater earnings and larger pensions (see Figure 10).8/ In 1987, couples earned on average over six times as much as single women--$5,800 compared with $900--and received over three times as much in pensions--$4,800 compared with $1,500. The percentage difference in Social Security benefits for the two types of elderly units was much lower; the average benefit for couples was 70 percent greater than that for single women in 1987--about $8,900 compared with $5,250.

FIGURE 10. DISTRIBUTION OF INCOME OF ALL ELDERLY UNITS, BY SOURCE OF INCOME AND TYPE OF UNIT, 1987



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

NOTE: Incomes of married couples adjusted for family size by dividing by 1.25.

The higher incomes of "younger" elderly units compared with the "older" old have similar explanations (see the top panel of Figure 11).9/ Average earnings fall

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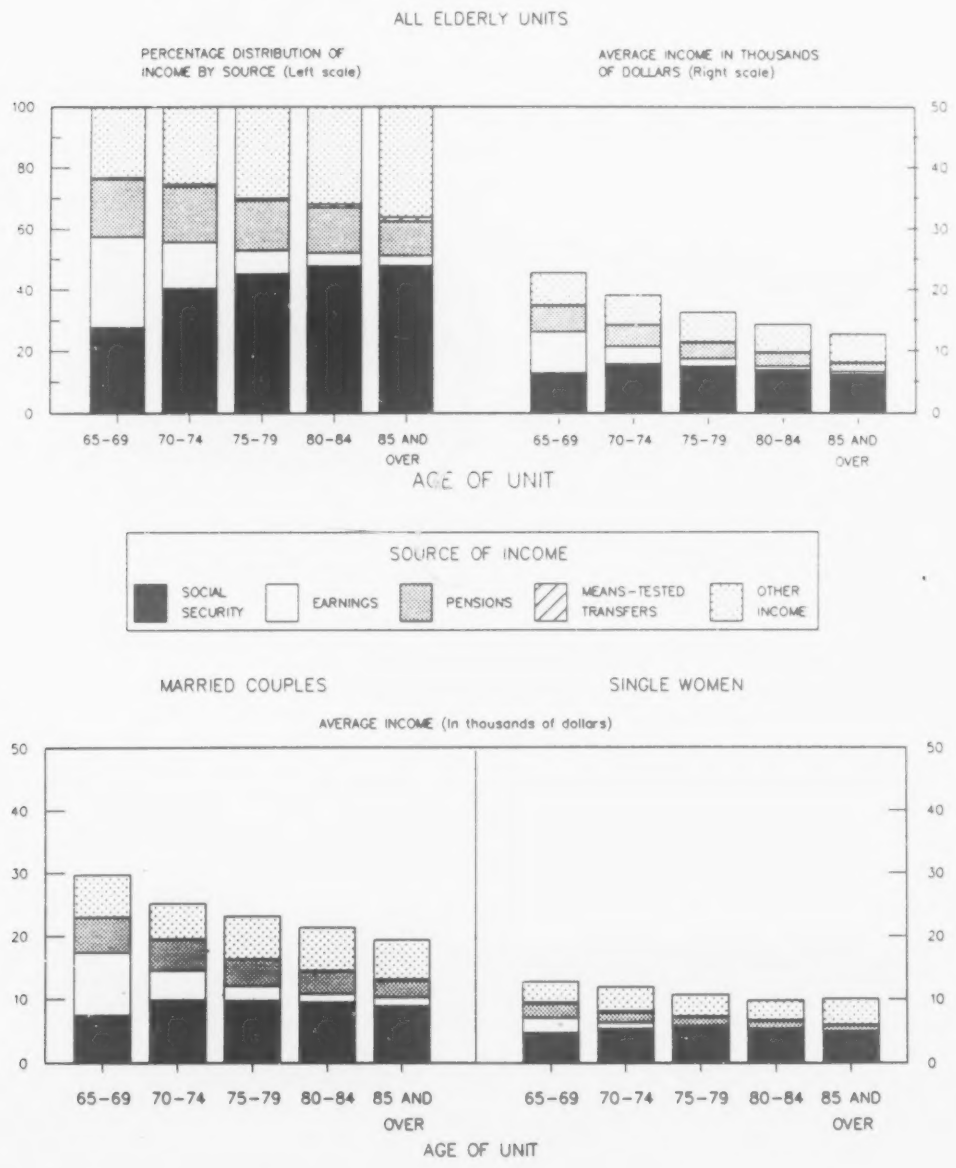
8. Figures 10, 11, and 12 show the average amounts of income obtained from various sources for all units of a particular type, not just those units that have income from the source in question. Figures 13, 14, and 15 present average incomes from each source for units with some income from the source.

9. Average incomes shown in Figure 11 are not adjusted for family size, and thus are larger than adjusted measures would be. The bottom panel shows average incomes of married couples and single women separately, however, so that valid comparisons using alternative adjustments are possible.

sharply with increasing age as the elderly become more likely to have retired: in 1987, elderly units ages 65 through 69 had average earnings 16 times those of units age 85 and over. Elderly married couples under age 70 are particularly likely to have members who work; for about 60 percent of them, the younger spouse is under age 65 and thus more likely to be employed.

FIGURE 11. DISTRIBUTION OF INCOME OF ALL ELDERLY UNITS, MARRIED COUPLES, AND SINGLE WOMEN, BY SOURCE OF INCOME AND AGE, 1987



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

Pension income also declines as age rises, although at a slower rate than earnings, for two reasons. First, younger retirees are more likely to have pensions than older retirees as a result of the growth in pension coverage in recent decades. Second, most private pensions and many public pensions do not automatically increase with inflation. Ad hoc increases provided by employers have not been sufficient to maintain their real value.

In contrast, average Social Security payments decline only gradually with age for all but the youngest age group. The lower Social Security benefits of units ages 65 through 69 are probably the result of the Social Security earnings test, which reduces their benefits by one dollar for every two dollars earned in excess of an earnings limit. (The reduction becomes one dollar for every three dollars of excess earnings in 1990.) People who continue to work and earn significant incomes between age 65 and age 69 consequently receive smaller benefits, and those with the highest earnings get no payments at all.

Variations in earnings, pensions, and Social Security also help explain the gap between the incomes of married couples and single women (see the bottom panel of Figure 11). While both earnings and pensions decline with increasing age within each type of unit, couples have substantially greater earnings than single women in every age category. At the same time, income falls much faster with increasing age for married couples, primarily as a result of their sharply declining earnings. Average Social Security payments vary much less among age groups--except for the youngest age group--but couples again have much larger benefits than single women, even after adjusting for family size.

Differences in earnings, pensions, and other private income (primarily interest, rents, and dividends) explain most of the variation in income among income quintiles. The top panel of Figure 12 shows sources for income quintiles when married couples and single people are considered together, while the bottom panel indicates sources for couples and single women separately.10/ In all cases, elderly units in the bottom fifth of the income distribution get only small amounts of their income from these three sources, an average of about $1,500 for couples and roughly $350 for single women in 1987. In contrast, married couples and single women in the top quintile received averages of about $48,000 and $20,000, respectively, from these sources, or more than three-fourths of their incomes. Except for the bottom fifth, Social Security income varied only slightly among income quintiles of either type of unit.

While only a portion of elderly units have earnings, pensions, or means-tested transfers, Figure 13 shows that recipients get larger amounts from these sources than is suggested by the overall averages shown above, which include both recipients and nonrecipients. For example, only about one-third of married couples worked in 1987, but those units had average adjusted earnings of about $13,500--almost half of their total income. More than half of married couples had pensions, with average adjusted benefits of about $7,000. Single women were much less likely to have earnings or to receive pensions; when they did, the amounts were far lower. Only in the case of means-tested transfers were single people more likely than couples to receive benefits. While those benefits averaged only about $2,000, they made up about one-third of recipients' income.

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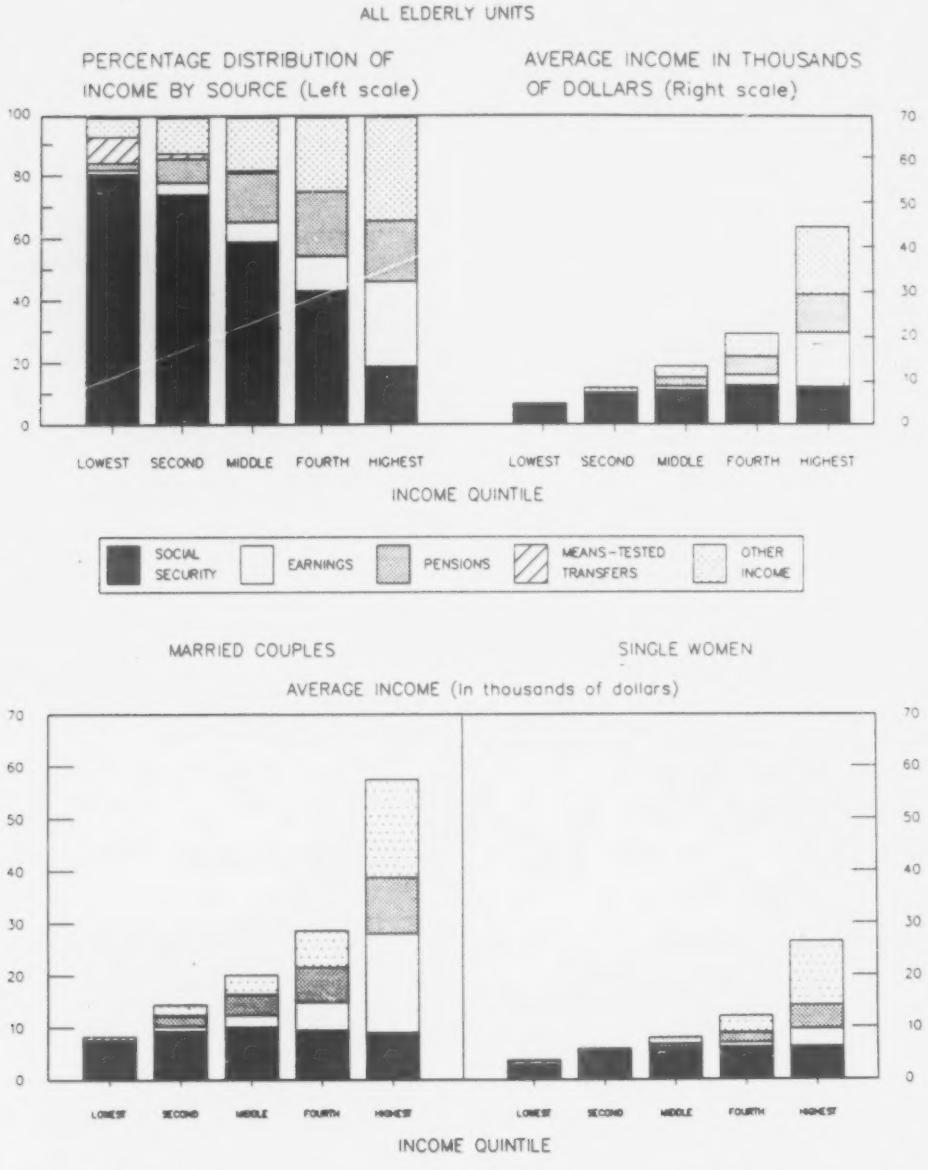
10. Incomes in Figure 12 are unadjusted for differences in family size. Separation of married couples and single women in the lower panel does, however, allow comparisons using alternative adjustments.

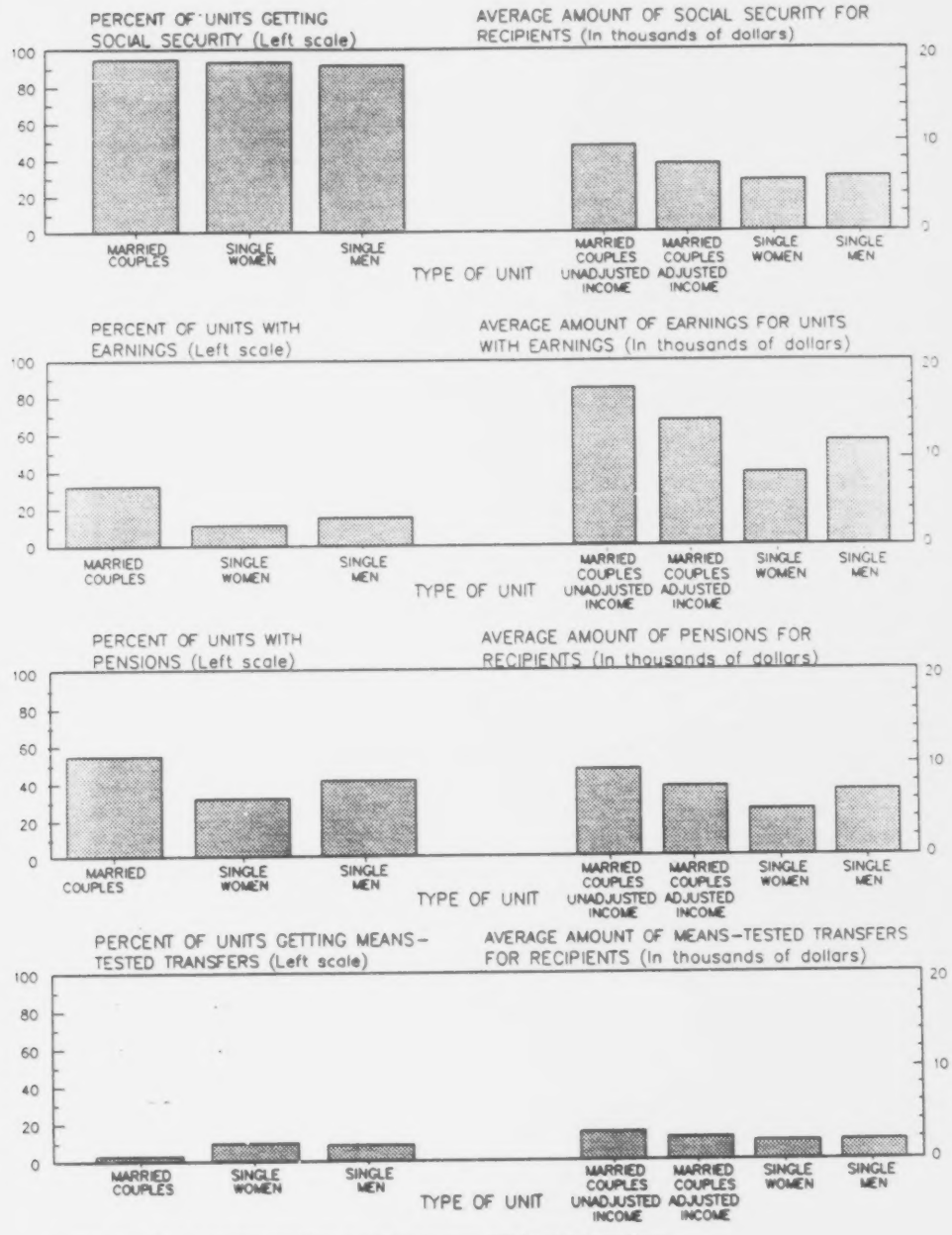
FIGURE 12. DISTRIBUTION OF INCOME OF ALL ELDERLY UNITS, MARRIED COUPLES, AND SINGLE WOMEN, BY SOURCE OF INCOME AND INCOME QUINTILE, 1987



SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

Not only were older units less likely to have earnings or pensions than younger units, but the average amount of income received from each source also declined with age (see Figure 14). For example, in 1987, about 40 percent of units ages 65 through 69 worked, with average adjusted earnings of about $14,000, while fewer than 5 percent of units age 85 or over had earnings, averaging roughly $8,000 (adjusted for family size). There was little variation among age groups in the fraction getting Social Security, the fraction getting means-tested transfers, or the average adjusted amounts received.

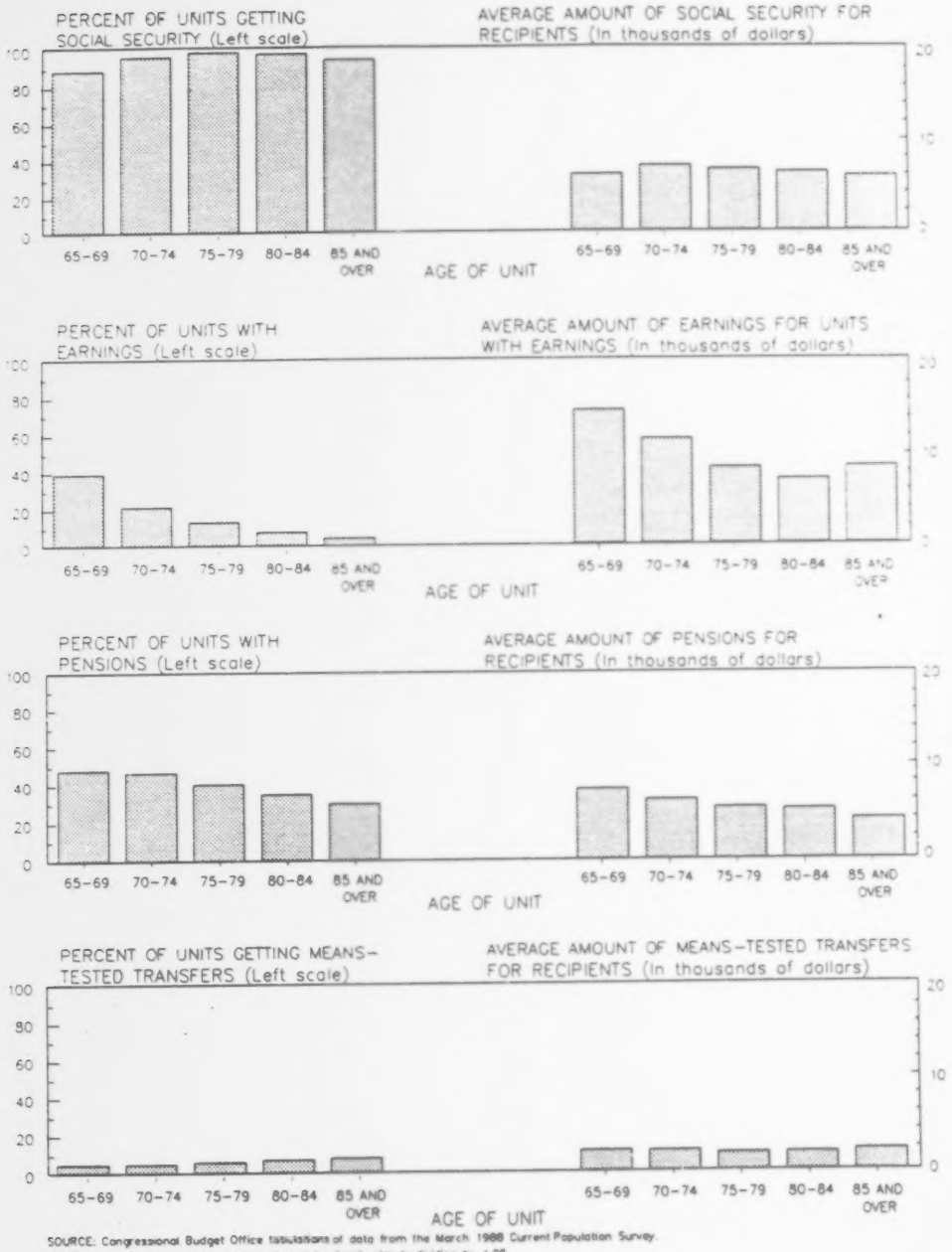
FIGURE 13. INCOME OF ELDERLY UNITS BY SOURCE OF INCOME AND TYPE OF UNIT, 1987


PERCENT OF UNITS GETTING SOCIAL SECURITY (Left scale)
AVERAGE AMOUNT OF SOCIAL SECURITY FOR RECIPIENTS (In thousands of dollars)
100
80
60
40
20
0
20
10
0
MARRIED COUPLES
SINGLE WOMEN
SINGLE MEN
TYPE OF UNIT
MARRIED COUPLES UNADJUSTED INCOME
MARRIED COUPLES ADJUSTED INCOME
SINGLE WOMEN
SINGLE MEN
PERCENT OF UNITS WITH EARNINGS (Left scale)
AVERAGE AMOUNT OF EARNINGS FOR UNITS WITH EARNINGS (In thousands of dollars)
PERCENT OF UNITS WITH PENSIONS (Left scale)
AVERAGE AMOUNT OF PENSIONS FOR RECIPIENTS (In thousands of dollars)
PERCENT OF UNITS GETTING MEANS-TESTED TRANSFERS (Left scale)
AVERAGE AMOUNT OF MEANS-TESTED TRANSFERS FOR RECIPIENTS (In thousands of dollars)

SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.

NOTE: Incomes of married couples adjusted for family size by dividing by 1.25.

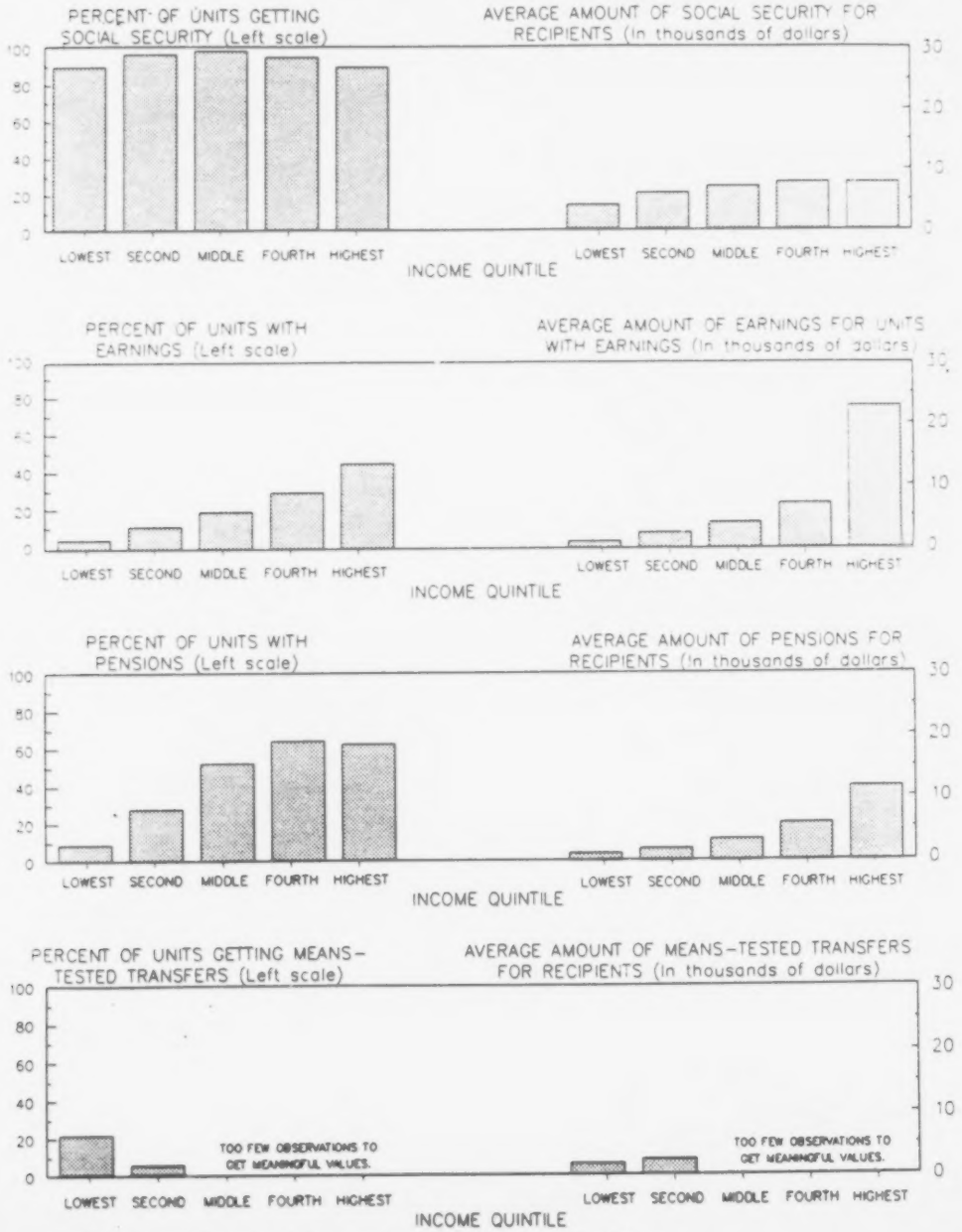
FIGURE 14. ADJUSTED INCOME OF ELDERLY UNITS, BY SOURCE OF INCOME AND AGE OF UNIT, 1987


PERCENT OF UNITS GETTING SOCIAL SECURITY (Left scale)
AVERAGE AMOUNT OF SOCIAL SECURITY FOR RECIPIENTS (In thousands of dollars)
PERCENT OF UNITS WITH EARNINGS (Left scale)
AVERAGE AMOUNT OF EARNINGS FOR UNITS WITH EARNINGS (In thousands of dollars)
PERCENT OF UNITS WITH PENSIONS (Left scale)
AVERAGE AMOUNT OF PENSIONS FOR RECIPIENTS (In thousands of dollars)
PERCENT OF UNITS GETTING MEANS-TESTED TRANSFERS (Left scale)
AVERAGE AMOUNT OF MEANS-TESTED TRANSFERS FOR RECIPIENTS (In thousands of dollars)
65-69
70-74
75-79
80-84
85 AND OVER
AGE OF UNIT

SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.
NOTE: Incomes of married couples adjusted for family size by dividing by 1.25.

High-income units were more likely than low-income units to have earnings and pensions, and, when they had them, to have larger amounts (see Figure 15). For example, nearly two-thirds of units in the top income quintile had pensions that averaged roughly $12,000--adjusted for family size--while only one-tenth of units in the lowest quintile had pensions, with average adjusted benefits of about $1,200. Higher-income units also received larger adjusted Social Security payments, but the differences among income quintiles were not large. As would be expected, low-income units were the most likely to get means-tested transfers: one-fifth of the poorest elderly received benefits averaging roughly $2,000, when adjusted for family size.

FIGURE 15. ADJUSTED INCOME OF ELDERLY UNITS BY SOURCE OF INCOME AND INCOME QUINTILE, 1987


PERCENT OF UNITS GETTING SOCIAL SECURITY (Left scale)
AVERAGE AMOUNT OF SOCIAL SECURITY FOR RECIPIENTS (In thousands of dollars)
LOWEST SECOND MIDDLE FOURTH HIGHEST
INCOME QUINTILE
PERCENT OF UNITS WITH EARNINGS (Left scale)
AVERAGE AMOUNT OF EARNINGS FOR UNITS WITH EARNINGS (In thousands of dollars)
PERCENT OF UNITS WITH PENSIONS (Left scale)
AVERAGE AMOUNT OF PENSIONS FOR RECIPIENTS (In thousands of dollars)
PERCENT OF UNITS GETTING MEANS-TESTED TRANSFERS (Left scale)
AVERAGE AMOUNT OF MEANS-TESTED TRANSFERS FOR RECIPIENTS (In thousands of dollars)
TOO FEW OBSERVATIONS TO GET MEANINGFUL VALUES.

SOURCE: Congressional Budget Office tabulations of data from the March 1988 Current Population Survey.
NOTE: Incomes of married couples adjusted for family size by dividing by 1.25.

ASSETS OF THE ELDERLY

Income does not tell the whole story about the well-being of the elderly. To the extent that they have assets, the elderly can consume more than current income allows. This final section examines the assets of the elderly to determine who have various types and how much they own.

The analysis focuses on three measures of assets, based on data for 1985 from the Survey of Income and Program Participation (SIPP). The most comprehensive measure is net worth--that is, the difference between the estimated value of all assets owned and all debts outstanding. Home equity is separated from other assets, both because of its importance in the holdings of many elderly units and because of the nature of housing as both a consumption good and an investment. Finally, the most liquid assets--bank accounts, stocks and bonds, retirement accounts, and other near-cash assets--are tabulated to measure the ability of elderly units to supplement their income most readily out of wealth. Because the value of assets reported on the SIPP may be underestimated, particularly in the case of home equity, these findings should be viewed with caution.11/

About 90 percent of elderly units had positive net worth in 1985, with a median value of about $68,000 (see Figure 16).12/ While married couples were only a little more likely than single people to have some assets, the median value of their holdings was about twice as high: nearly $100,000 compared with less than $50,000. This difference may be partly the result of large amounts of assets having been spent at the end of one spouse's life--particularly for medical expenses--leaving the survivor with relatively little.

More than 85 percent of married couples owned their homes, with a median equity of about $50,000, while only 60 percent of single women had homes, with a median worth of about $40,000. Median financial assets of the elderly with such holdings were smaller--roughly $22,000 for all units; again, the median amount held by couples was about twice as much as for single people--$31,000 compared with about $16,000.

There was little difference in 1985 among age groups in the fraction with positive net worth, but the median value of holdings was lower for older groups--$84,000 for the youngest group compared with $57,000 for the oldest (see Figure 17).13/ Nearly 80 percent in each age group had some financial assets, with the median value ranging from about $25,000 for those ages 65 through 69 to about $20,000 for those age 80 or over. In contrast, homeownership rates dropped from 80 percent for the youngest group to about 65 percent for the oldest, while the median house value was between $45,000 and $50,000 for all groups.

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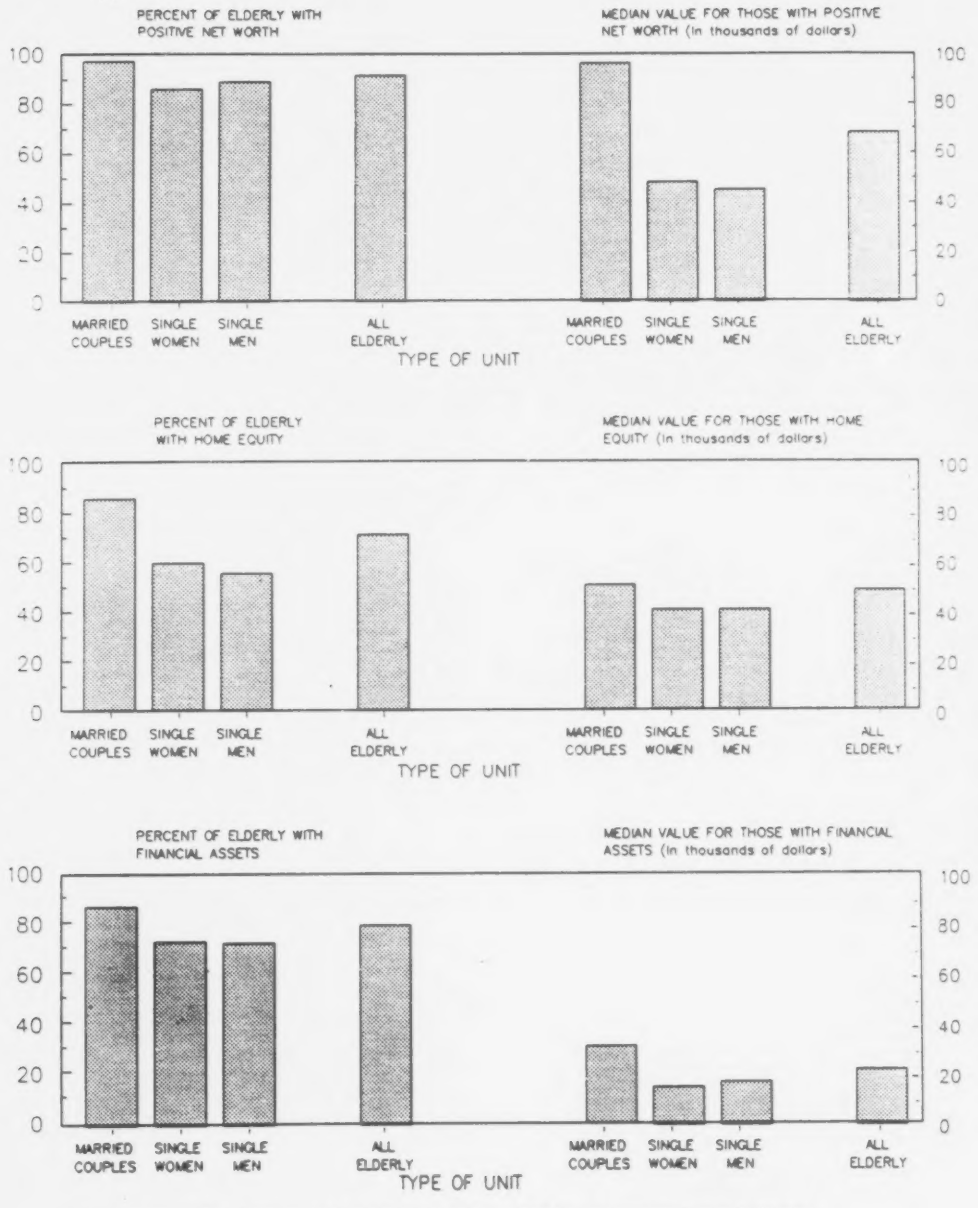
11. See the appendix for a discussion of limitations of data from the SIPP.

12. Tables containing the data that are the basis for the figures in this paper are available from the Congressional Budget Office.

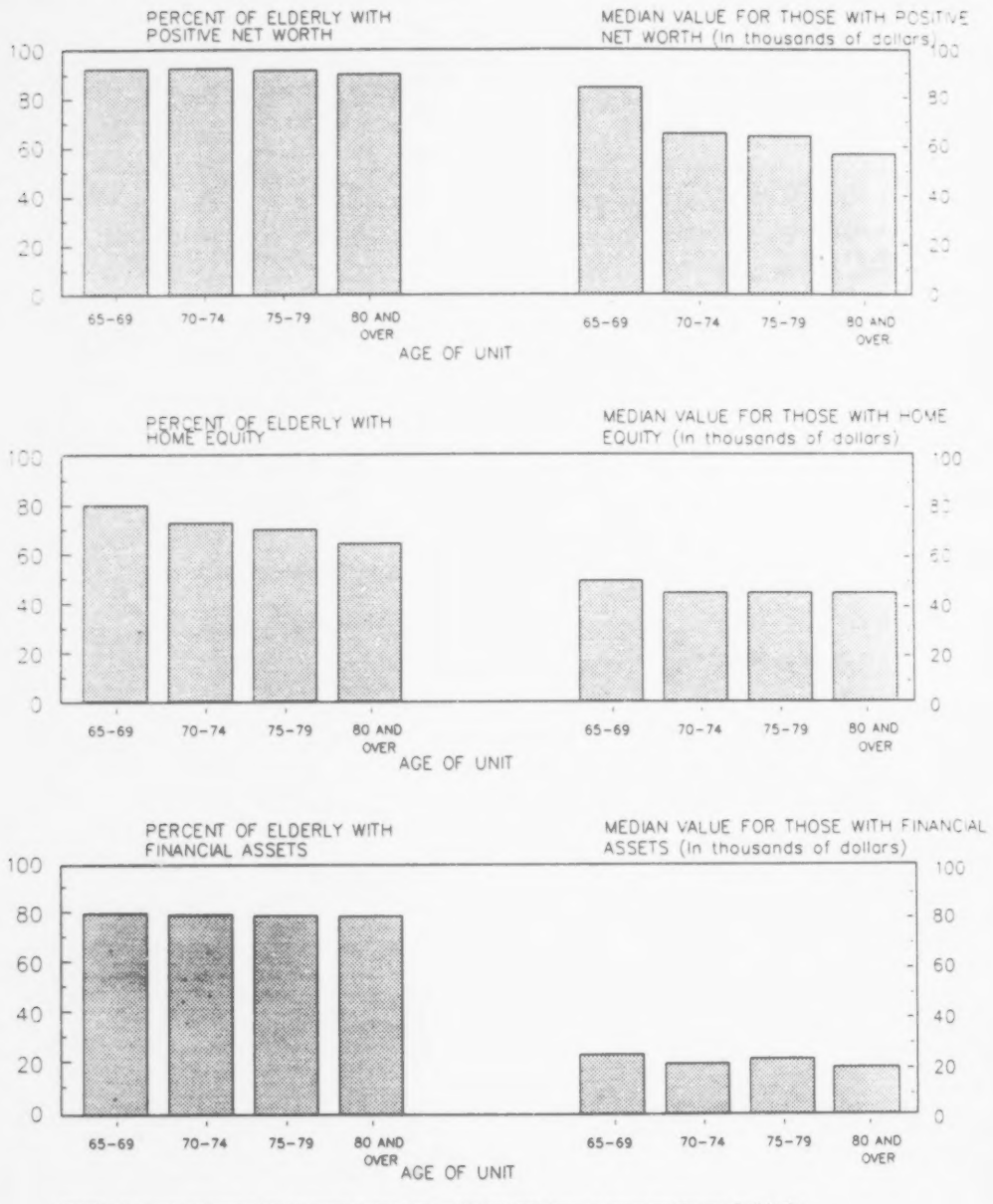
13. Because of data limitations, elderly units age 80 or over are combined into one age group for the analysis of assets. No adjustment is made to the value of assets to reflect differences in family size.

FIGURE 16. ASSETS OF ELDERLY UNITS BY TYPE OF ASSET AND TYPE OF UNIT, 1985


PERCENT OF ELDERLY WITH POSITIVE NET WORTH
MEDIAN VALUE FOR THOSE WITH POSITIVE NET WORTH (In thousands of dollars)
PERCENT OF ELDERLY WITH HOME EQUITY
MEDIAN VALUE FOR THOSE WITH HOME EQUITY (In thousands of dollars)
PERCENT OF ELDERLY WITH FINANCIAL ASSETS
MEDIAN VALUE FOR THOSE WITH FINANCIAL ASSETS (In thousands of dollars)
0
20
40
60
80
100
MARRIED COUPLES
SINGLE WOMEN
SINGLE MEN
ALL ELDERLY
TYPE OF UNIT

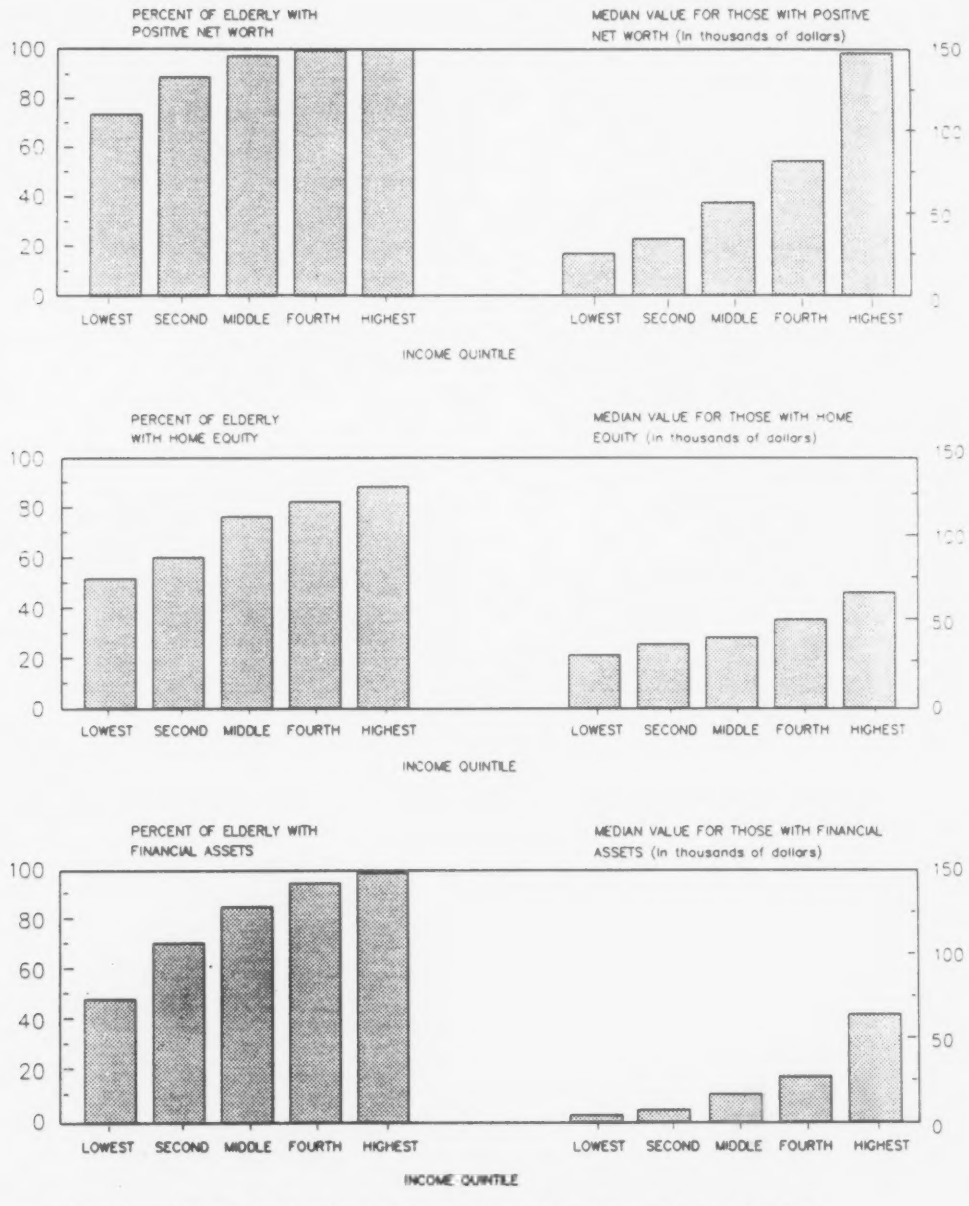
SOURCE: Congressional Budget Office tabulations of data from the 1984 and 1985 Survey of Income and Program Participation.

FIGURE 17. ASSETS OF ELDERLY UNITS, BY TYPE OF ASSETS AND AGE OF UNIT, 1985


PERCENT OF ELDERLY WITH POSITIVE NET WORTH
MEDIAN VALUE FOR THOSE WITH POSITIVE NET WORTH (In thousands of dollars)
PERCENT OF ELDERLY WITH HOME EQUITY
MEDIAN VALUE FOR THOSE WITH HOME EQUITY (In thousands of dollars)
PERCENT OF ELDERLY WITH FINANCIAL ASSETS
MEDIAN VALUE FOR THOSE WITH FINANCIAL ASSETS (In thousands of dollars)
0
20
40
60
80
100
65-69
70-74
75-79
80 AND OVER
AGE OF UNIT

SOURCE: Congressional Budget Office tabulations of data from the 1984 and 1985 Survey of Income and Program Participation.

FIGURE 18. ASSETS OF ELDERLY UNITS BY TYPE OF ASSET AND ADJUSTED INCOME QUINTILE, 1985



SOURCE: Congressional Budget Office tabulations of data from the 1984 and 1985 Survey of Income and Program Participation.

Both the ownership and the value of all three asset measures increased substantially with income quintile in 1985 (see Figure 18). Virtually all elderly units in the top two income quintiles had some assets, compared with about 75 percent of those in the lowest quintile. The difference in median holdings of those with assets was more dramatic: nearly $150,000 for the highest-income group versus about $25,000 for the poorest. About half of the elderly units in the lowest income quintile owned their homes, with median equity of about $30,000. In contrast,

nearly 90 percent of those in the top quintile owned homes with a median worth of more than $60,000. The ownership of financial assets was slightly more uneven. Fewer than half of all low-income units had any such wealth, compared with essentially all of the highest-income units. Furthermore, for those with financial assets, the median value was about $60,000 for the richest quintile, but only about $4,000 for the poorest.

APPENDIX: DATA SOURCES AND THEIR LIMITATIONS

Virtually all of the data used in the analysis come from either the Current Population Survey (CPS) or the Survey of Income and Program Participation (SIPP). Both surveys are of representative samples of the entire non-institutionalized population, but they differ significantly in terms of size, frequency of data collection, and questions asked.

The demographic and income data reported in the first two sections of this paper come from the CPS, a monthly survey used primarily to collect data about employment. A supplement to the March survey obtains detailed information about incomes and work experience during the preceding calendar year for all members age 14 and over in nearly 60,000 interviewed households. Sample weights allow estimating values for the total noninstitutional population of the United States. The March 1988 survey, which collected data on 1987 incomes, included information on about 18,500 people age 65 or over. Relatively few of these people were among the "old" elderly--only about 1,500 were age 85 or over. For most purposes, however, sample sizes are sufficient to provide meaningful results.

Data on assets are from the SIPP, a longitudinal survey that interviews panels of about 12,000 sample households every four months over 32-month periods. A new panel is begun each year. Questions about ownership of assets and their values are asked twice during each panel, timed so that data for successive panels are gathered over the same calendar period. This design allows combining data from different panels to increase the number of observations. The asset data used in this analysis were collected during the last four months of 1985 for both the 1984 and 1985 SIPP panels. Even with both panels combined, however, there are many fewer observations than in the CPS: information on assets is available for a total of 5,000 elderly households consisting of individuals living alone or only with their spouses.

Readers should keep in mind a number of weaknesses in the data when examining the analytic findings. First, survey data almost certainly are subject to some misreporting of financial and other information, particularly for the elderly. For example, survey respondents do not fully report their incomes from all sources; compared with independent estimates, only about 72 percent of aggregate money income is reported on the CPS. Nearly two-thirds of the unreported income is subsequently imputed to CPS families by the Bureau of the Census. As a result, total income shown on the CPS--both reported and imputed--is about 90 percent of independent estimates of income. This underreporting of incomes means that family well-being is understated. Similar problems affect income data from the SIPP, but the degree of underreporting is slightly less.

Little is known about the reliability of asset data from the SIPP, although comparisons with other sources indicate only small differences for all but the wealthiest people. There are major questions about how accurately people estimate the value of their assets, however, particularly in the case of housing. People who live in areas with infrequent home sales may not be aware of how the value of their homes has changed. Thus, asset information should be viewed with caution.

Sampling problems of both surveys may affect income analyses at both ends of the distribution. Wealthy households seem to be more likely to refuse interviews, while low-income households are apparently more difficult to locate. As a result, both groups seem to be underrepresented in the survey populations, and estimates of their incomes may be inaccurate.

A final problem, affecting only the CPS, involves differences in family composition between the time of the CPS interview and the previous year to which income data apply. The CPS implicitly assumes that the family composition when the survey is conducted in March is the same as that for the previous year when reported incomes were received, even though many families will have changed. Differences in family composition between the two times will lead to inaccurate estimates of family well-being, but the direction of any resulting bias is unknown. Because demographic and economic data are collected for the same time periods, this problem does not affect the SIPP.

98-116 (40)